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RUEHOO/CHINA POSTS COLLECTIVE PRIORITY
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RUEHNE/AMEMBASSY NEW DELHI 2720
RUEHUL/AMEMBASSY SEOUL 5414
RUEHKO/AMEMBASSY TOKYO 3086
RUEHWL/AMEMBASSY WELLINGTON 0008
RUEKJCS/SECDEF WASHDC
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RUEAIIA/CIA WASHDC
RHEFDIA/DIA WASHINGTON DC
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S E C R E T SECTION 01 OF 04 JAKARTA 001685

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SUBJECT: SINO-INDONESIAN RELATIONS -- POLITICAL WARINESS AS
TRADE BOOMS

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Classified By: Charge d'Affaires Ted Osius, reasons 1.4(b+d).

¶1. (C) SUMMARY: The GOI views its deepening ties with the United States as an important element of a strategy to maintain regional balance in light of expanding Chinese influence. Sino-Indonesian ties are currently dominated by booming trade relations, which have in turn brought concerns that imports from the PRC may eventually swamp the Indonesian economy. Indonesian wariness of Chinese political objectives in the region is tempered by a lack of contentious territorial issues. The current absence of serious discrimination aimed at ethnic-Chinese Indonesians also reduces a potential irritant. The bilateral Strategic Partnership agreed in 2005, which on paper appears far-reaching, has yet to produce much of consequence. Mil-to-mil relations are gradually expanding from a relatively small base and remain pale in comparison to those with the United States. Indonesian civilian and military leaders continue to express enthusiasm for expansion of mil-to-mil relations with the U.S., in part due to their concerns about China's future intentions in the region. END SUMMARY.

STRATEGIC PARTNERSHIP DEEPENS TIES, ON PAPER

¶2. (C) PRC-Indonesia relations, which were formally reestablished in 1990, were nominally strengthened in April 2005 when Presidents Hu and Yudhoyono issued a joint declaration in Beijing establishing a Strategic Partnership. The Partnership formalized a series of ministerial-level dialogues on bilateral cooperation (every two years), economic and technical cooperation (annual), and security affairs (every two years). Aside from those meetings, however, the Partnership remains short on concrete initiatives. According to Department of Foreign Affairs (DEPLU) contacts, the plan of action to implement the Partnership is still tied up in the Indonesian interagency process and bilateral negotiations have not yet begun.

GENERALLY STABLE BILATERAL TIES

¶3. (C) In the interest of fostering a positive Chinese role,

Indonesia seeks to deepen PRC integration into a host of regional institutions and multilateral fora, including the East Asia Summit, the ASEAN plus 3, and the ASEAN Regional Forum. This strategy is consistent with Indonesia's traditional stress on multilateralism, as reflected in Indonesia's historical leadership of the Non-Aligned Movement, and its role as host of the ASEAN Secretariat and founder of the Bali Democracy Forum. At the same time, senior Indonesian officials frequently tell us that they fear excessive Chinese influence could upset the "balanced relationships" in the region. They seek an active regional role for Australia, India, Japan and most of all the United States to forestall this eventuality. Indonesia encouraged the United States to seek a role in the first East Asia Summit in 2005 in an effort to balance China's potentially overwhelming influence. Indonesian officials regularly urge us to deepen our engagement in regional institutions and have hailed American accession to the ASEAN Treaty of Amity and Cooperation as a step in that direction.

¶4. (C) Bilaterally, Indonesia currently has no "hot" disputes with China. The seizure of a number of Chinese vessels and arrest of their crews for illegal fishing in July was a reminder of the potential for a territorial dispute over the resource-rich waters around the Natuna Islands. The issue remains latent. The PRC has not pressed a claim on the Natunas as it has for locations further north in the South China Sea, and DEPLU maintains that Indonesia has no territorial issues with China.

¶5. (C) Bilateral relations have been improved in recent

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years by the lack of violence or official discrimination aimed at the ethnic-Chinese Indonesian community. Large-scale anti-ethnic-Chinese violence has virtually disappeared since the widespread attacks on ethnic-Chinese homes and businesses at the close of the Suharto era. Likewise, rhetorical bashing of China or Chinese-Indonesians is almost nil in the political sphere. Culturally, Chinese-Indonesians have been given more space to use the Chinese language and show their ethnic roots. Below the surface, some tensions remain. A number of interlocutors have told us that a significant segment of Indonesian society quietly maintains prejudice against Chinese-Indonesians and views their economic activities as unfair to "native" Indonesians. Both Chinese and Indonesian contacts remain wary that if economic conditions were to worsen significantly there is a possibility that some Indonesians might take out their frustrations against the ethnic Chinese. For their part, ethnic Chinese appear to put their trust in President Yudhoyono, whom they strongly supported in this year's presidential election.

¶6. (C) In the opposite direction, the GOI remains concerned about the plight of the Muslim Uighurs in Xinjiang.

Responding to pressure from Indonesian Muslim groups, DEPLU has pressed the PRC to work to maintain order in Xinjiang and protect the Uighers. Krishnajie (one name only) of DEPLU's Directorate of East Asia and Pacific Affairs, told us the visit of a Chinese Special Envoy to Jakarta in July had been useful on this matter, in particular his meetings with the leaders of the Muhammadiyah and Nahdlatul Ulama mass-based Muslim organizations.

¶7. (SBU) The general public appears neither terribly concerned, nor terribly engaged with the PRC. An April 2009 Office of Opinion Research poll showed 35 percent of urban respondents viewed the United States as Indonesia's closest security partner in five to ten years, compared to only three percent who said so for China. While 54 percent said they expected the United States to be the biggest military power in East Asia in that time frame, only four percent viewed China as such. This contrasts with economic relations. When asked who they saw as Indonesia's closest economic partner in five to ten years, 19 percent said China, nearly as many as

the 22 percent that chose the United States.

SECURITY TIES LIMITED BUT GROWING

¶18. (C) Military relations between Indonesia and China are still nascent, particularly in comparison to bilateral political and economic ties. Overall bilateral defense contacts remain largely at the senior level, with working level ties primarily limited to participation in multilateral events including other Southeast Asian countries, educational and training opportunities for Indonesian officers in China, and exchange visits. Such opportunities have included training for four Indonesian Air Force Sukhoi pilots in China in October 2008 and a small number of attendees at Chinese senior military schools.

¶19. (S) Shortly after the 2005 Strategic Partnership was concluded, the two sides signed an MOU on defense technology cooperation and reached an agreement for Indonesia's purchase of YJ-82/C-802 anti-ship missiles for \$11 million, Jakarta's first major purchase of Chinese manufactured weapons since the mid 1960s. It remains unclear whether the full quantity of missiles was delivered, though. In May 2009 Beijing and Jakarta declared their intention to sign a further MOU on military technology. Purchases of weapons from the PRC are likely to continue since those purchases reflect a conscious Indonesian policy to diversify sources of arms supply. In any case, Indonesia--due to budgetary constraints--does not have much money to spend on defense hardware.

¶10. (S) Ties with the Indonesian Army Special Forces

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(KOPASSUS)--a key and politically influential component of the Indonesian military--are in the early stages, but moving forward. In May 2009, Indonesian Minister of Defense Sudarsono stated that KOPASSUS was training with the Chinese People's Liberation Army's special operations forces, and the Indonesian KOPASSUS commander plans to visit China in October.

¶11. (C) Bilateral military ties appear likely to remain at the current level for some time given lingering Indonesian suspicions of the Chinese and Jakarta's preference for increasing ties with the United States. For example, U.S. participation dwarfed that of China in an August international fleet review in Manado, North Sulawesi. Indonesian officials told us they were extremely pleased with the five U.S. ships--including an aircraft carrier--and high-level American delegation, including the Chief of Naval Operations, which far surpassed China's contribution. U.S. officials filling the front row of the reviewing stand while a lone Chinese officer sat near the back served to illustrate the disparity between U.S. and PRC military ties with Indonesia.

ECONOMIC RELATIONS ON THE RISE

¶12. (C) On the economic front, Indonesia has a mixed relationship with China. On the positive side, bilateral trade is surging. In 2005, the GOI set a trade target of USD 30 billion for 2010, but at USD 31.5 billion, that goal was already exceeded in 2008. China benefits from this relationship by locking in long-term supplies of natural resources to fuel its economic machine. And Indonesia benefits by having an economic partner that is not troubled by the formalities of the investment climate or shifting regulations.

¶13. (C) In March 2009, the People's Bank of China offered Bank Indonesia a bilateral currency swap arrangement worth an estimated equivalent of USD 15 billion. While the deal offered limited utility to Bank Indonesia, it sent a signal to Indonesia that China is a friend. The absence of a Federal Reserve currency swap was interpreted by the

Indonesians as carrying the opposite message from the U.S.
(Ref a).

FUTURE PROBLEMS ON THE ECONOMIC SIDE?

¶14. (C) On the negative side, many Indonesian economic and business leaders have become troubled with aspects of the relationship, including unreliable Chinese business performance and suspicions of corruption within the personal relationships Chinese businesses cultivate to support their activities in Indonesia. GOI officials are also wrestling with how to extract more long-term development benefits from economic relations with China, even as China extracts Indonesia's oil, gas, minerals and forests. Indonesia's non-oil and gas trade deficit with China skyrocketed from USD 1.2 billion in 2007 to USD 7.1 billion in 2008. Additionally, the low-cost Chinese government financing often used to support bilateral trade and investment has proved troublesome at times. In a commercial dispute over Indonesian airline Merpati's inability to pay for a contract to buy Chinese aircraft earlier this year, the Chinese government shut off some of the concessionary financing. This action in turn caused many Indonesian policymakers to reassess their growing reliance on Chinese companies in the energy and minerals sector. For their part, Indonesian labor unions have an extremely negative view of Chinese companies, alleging that PRC firms are the worst offenders of labor laws.

¶15. (C) Despite (or because of) the ever-increasing scale of economic interaction, Indonesian policymakers fear China's ability to flood their markets with manufactured consumer products. In response, Indonesia has enacted a series of protectionist measures that nominally have broad application

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but are primarily used to limit the inflow of Chinese goods. These measures include import registration, designation of only five international ports for trade, a 30 percent local content requirement in the telecom sector, plus "Batik Fridays" and other similar efforts to promote Indonesian-made clothing.

¶16. (C) Chinese investment in Indonesia is heavily focused on the energy and resources sector. Much of that investment in areas such as coal mining, forestry, and electricity generation uses technology that is decades old, and environmental controls are often below standards used by companies from developed countries. Industry analysts also suspect that Chinese businessmen are involved in illegal mining in Indonesia and illegal exports to China.

¶17. (C) As explained above, economic ties remain the driving factor for bilateral relations, and it is in the economic field where potential problems currently lie. While concerns about the PRC's political intentions color Indonesian leaders' perceptions of China's long-term role in the region, economic issues appear to pose the biggest possible irritants to bilateral relations in the near term. Among the major concerns are the balance of trade, smuggling, illegal fishing and forestry activities, and perceptions of widespread corruption in bilateral trade and investment.

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